

Message Text

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ACTION EA-12

INFO OCT-01 AF-10 ARA-10 EUR-12 NEA-10 IO-13 ISO-00
AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-07
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 INT-05 GSA-02 STR-05 L-03
PA-01 PRS-01 DOE-11 SOE-02 /140 W
-----044302 302244Z /73

R 302041Z DEC 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 7659
INFO AMEMBASSY JAKARTA
AMEMBASSY ANKARA
AMEMBASSY BELGRADE
AMEMBASSY CANBERRA
USMISSION GENEVA
AMEMBASSY KINSHASA
AMEMBASSY KUALA LUMPUR
AMEMBASSY LA PAZ
AMEMBASSY LIMA
AMEMBASSY LUSAKA
AMEMBASSY MANILA
AMEMBASSY MEXICO
AMEMBASSY NOUAKCHOTT
AMEMBASSY OTTAWA
AMEMBASSY PORT MORESBY
AMEMBASSY TEHRAN
AMEMBASSY WARSAW
AMEMBASSY LONDON
AMEMBASSY PARIS

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PARIS FOR OECD

E.O. 11652: N/A
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TAGS: EMIN, CIPEC, ID
SUBJECT: CIPEC MINISTERIAL MEETING, JAKARTA, DECEMBER 5-7

REF: JAKARTA 16524

1. SUMMARY. TO DISCUSS CIPEC MEETING, AMBASSADOR AND EMBOFFS
MET WITH MINES MINI TER ENRIQUE VALENZUELA AND HIS DEPUTY,

RUBEN SCHINDLER. THESE ARE THE TWO PRINCIPALLY RESPONSIBLE FOR COPPER COMMODITY POLICIES. BOTH WERE PRESENT AT THE JAKARTA CIPEC MINISTERIAL MEETING, DEC. 5-6. DISAPPOINTED WITH THE MEETING, THE GOC REFUSES TO CONSIDER A PRODUCTION CUTBACK AND CONTINUES TO STRONGLY ADVOCATE A PRODUCER-CONSUMER FORUM (PCF).

2. VALENZUELA DESCRIBED THE CIPEC MEETING ESSENTIALLY ALONG THE LINES OF JAKARTA 16524. HE EMPHASIZED, HOWEVER, THAT HE DID NOT VIEW THE MEETING AS A CHILE-ZAMBIA CONFRONTATION, RATHER, HE POINTS OUT, THE GREAT DIFFICULTY OF FORMULATING MULTILATERAL COMMODITY POLICY IS THAT EACH PRODUCER HAD TO LIVE WITH A DIFFERENT SET OF CIRCUMSTANCES. FOR INSTANCE, ZAMBIA IS A HIGH COST PRODUCER AT MORE THAN 1.00/LB, WHEREAS CHILE IS A RELATIVELY LOW COST PRODUCER WITH AN AVERAGE COST OF .51/LB. THEREFORE, WHILE CHILE PROFITS (ALBEIT NOT BY MUCH), ZAMBIA IS DEEP IN THE RED. ACCORDING TO VALENZUELA, THE IMF - WORLD BANK HAVE TAKEN NOTE OF THIS AND HAVE BEEN PRESSURING ZAMBIA TO CUT PRODUCTION. ZAMBIA, NATURALLY, WOULD LIKE AS MUCH COMPANY AS POSSIBLE IN ITS PREDICAMENT.

3. VALENZUELA CHARACTERIZED THE ZAMBIAN MINISTER'S ANNOUNCEMENT THAT IN SPITE OF CHILE'S OPPOSITION PERU, ZAIRE, AND ZAMBIA HAD AGREED IN PRINCIPLE TO CUT PRODUCTION, AS "ABSURD ON THE FACE OF IT." CIPEC BY-LAWS ALLOW FOR ONLY UNANIMOUS DECISIONS AS BINDING. IN ANY CASE, THE PERUVIAN DELEGATE (GOP AMBASSADOR TO TOKYO) WAS NOT A PLENIPOTENTIARY BEFORE CIPEC. SINCE HIS DECISIONS LIMITED OFFICIAL USE

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REQUIRE FURTHER GOP APPROVAL, NO SUCH AGREEMENT COULD HAVE BEEN POSSIBLE IN JAKARTA.

4. CHILE'S BASIC POSITION IS THAT ANY AGREEMENT TO BE EFFECTIVE MUST BE WITHIN THE CONTEXT OF A PRODUCER-CONSUMER FORUM. WITH SCANT SUCCESS UNTIL RECENTLY, CHILE HAS CONSISTENTLY BEEN ADVOCATING THIS POSITION FOR AT LEAST THE LAST THREE YEARS. AT JAKARTA, HOWEVER, GOC RAISED THE PCF IDEA AGAIN AND THIS TIME, ACCORDING TO SCHINDLER, THERE WAS REAL RECEPTIVITY. THE BAD NEWS IS THAT THE OTHER MEMBERS SEE THE PCF AS BEST RELATED TO THE UNCTAD NEGOTIATIONS. CHILE, FOR

ITS PART, HOLDS THAT A PCF IS ONLY POSSIBLE WITHIN CIPEC. THAT IS, THE GOC ENVISIONS A MANAGEABLE, TIGHTLY-KNIT GROUP, COMPOSED OF SERIOUS-MINDED CIPEC PRODUCERS AND OECD CONSUMERS, ALOOF FROM THE POLITICAL FALDERAL OF UN COMMISSIONS.

5. PRODUCTION/EXPORT CUTBACKS. GOC ARGUES THAT PRODUCTION IS ALREADY BEING REDUCED AS A LOGICAL CONSEQUENCE OF MARKET FORCES AND BY THE NATURE OF MINING OPERATIONS. IN FREE MARKET ECONOMIES SOME LARGE MINES HAVE ALREADY BEEN CLOSED, NOTABLY IN THE U.S. IN CHILE MANY SMALL, PRIVATE OPERATORS HAVE

SHUT DOWN. MOREOVER, GOC FURTHER POINTS OUT THAT A
DE FACTO PRODUCTION CUT IS THE NATURAL RESULT OF PROGRESSIVE
ORE GRADE DETERIORATION COUPLED WITH THE ABSENCE OF INVESTMENT
IN NEW CAPACITY. GOC HAS NO NEW INVESTMENT SCHEDULED IN THE
SHORT TERM. NEW PRIVATE INVESTMENT WILL NOT RESULT IN PRODUCTION
UNTIL 1982. GOC ESTIMATES THAT TOTAL PRODUCTION THIS YEAR WILL BE
7 PERCENT LESS THAN LAST YEAR. THE GOC IS UNALTERABLY
OPPOSED TO ANY SUPPLY MANAGEMENT SCHEME INVOLVING MANDATED
PRODUCTION CUTBACKS. ESSENTIALLY, THREE REASONS ARE ADVANCED:
A) FOREIGN DEBT. CHILE, AFTER ISRAEL, IS THE MOST HIGHLY

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PARIS FOR OECD

LEVERAGED COUNTRY IN THE WORLD. CHILE'S FOREIGN DEBT AMOUNTS
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TO \$4.3 BILLION, REQUIRING A PAYMENT THIS YEAR OF \$1.05
BILLION WITH SIMILARLY LARGE PAYMENTS DUE EACH YEAR UNTIL
1980. FOR THE ECONOMIC AND POLITICAL REASONS WITH WHICH THE
DEPARTMENT IS LONG FAMILIAR, THE GOC HAS CONCLUDED THAT RE-
NEGOTIATION IS NOT IN CHILE'S INTEREST AT THIS TIME. THEREFORE,
CHILE NEEDS ALL THE FOREIGN EXCHANGE IT CAN GET; COPPER
EXPORTS ARE ITS BEST SHOT.

B) EMPLOYMENT EFFECT. CHILE'S MOST SERIOUS, CONTINUING
ECONOMIC-SOCIAL PROBLEM IS UNEMPLOYMENT (12.8 PERCENT).
THE GOC IS WELL AWARE THAT THIS ISSUE IS THEIR OPPONENT'S
STRONGEST ARGUMENT. EVEN THOUGH THE NUMBERS ARE SMALL, THE
REGIME WILL NOT ACCEPT ANY HIGHER UNEMPLOYMENT IN PURSUING WHAT
THEY CONSIDER TO BE WILL-OF-THE-WISP. BY GOC CALCULATIONS A
15 PERCENT CUT IN PRODUCTION WOULD RESULT IN THE LOSS OF
APPROXIMATELY 7,000 JOBS. WHILE THIS NUMBER REPRESENTS
ONLY .5 PERCENT OF TOTAL UNEMPLOYMENT, IT IS ALMOST EQUAL TO THE
DROP IN THE UNEMPLOYMENT RATE FOR THE WHOLE YEAR. THIS HARD-WON
GAIN WOULD NOT BE SACRIFICED LIGHTLY.

C) INEFFECTIVENESS. GOC PLANNERS AND STRATEGISTS ARE BASICALLY
UNPERSUADED THAT A CUTBACK WOULD HAVE ANY SIGNIFICANT EFFECT
ON PRICE. THE 2.3 MILLION TON STOCK OVERHANGING THE MARKET
WOULD KEEP PRICES DEPRESSED IN THE SHORT TERM ANYWAY.
MOREOVER, WITHOUT THE U.S. AND/OR CANADA A SUPPLY CONTROL
EFFORT INVOLVING ONLY CIPEC MEMBERS WOULD BE DOOMED TO
FAILURE FOR INSUFFICIENT MARKET POWER. FINALLY, CHILE'S
PREVIOUS EXPERIENCE WITH PRODUCTION CUTS WAS NOT A HAPPY ONE
IN THEIR VIEW. FREELY ADMITTING THAT THE FEELING IS MUTUAL,
THEY DON'T TRUST THEIR ASSOCIATES TO STICK TO THEIR GUNS.

6. AS TO WHETHER CIPEC CHAIRMAN WAS GIVEN MANDATE (REF JAKARTA
16524) TO ESTABLISH WITH OECD COUNTRIES THE "NECESSARY BASES FOR
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AGREEMENT AT 3RD PREPARATORY MEETING," ACCORDING TO GOC, THIS
WAS TACITLY AGREED TO, BUT IN ANY CASE AGREEMENT WAS NOT NECESSARY.
THE CHAIRMAN HAS THE PREROGATIVE OF SUCH INITIATIVES. HE CANNOT,
OF COURSE, COMMIT CIPEC TO ANYTHING WITHOUT FULL MINISTERIAL

IMPRIMATUR.

7. RIO TINTO ZINC (RTZ) PROPOSAL. GOC OFFICIALS SAY THEY ARE NOT ONLY FAMILIAR WITH THE PROPOSAL BUT REGARD IT AS A SOUND POSSIBLE SOLUTION. SCHINDLER COULD NOT SAY WHY THE RTZ WAS NOT DISCUSSED FORMALLY. HE DID, HOWEVER, OFFER A RATHER STRANGE EXPLANATION FOR WHY CHILE DID NOT TAKE THE INITIATIVE. ACCORDING TO SCHINDLER, THE RTZ PROPOSAL REALLY ONLY OFFERS A FINANCIAL DEMENSION (LOANS) TO WHAT IS OTHERWISE A PCF MECHANISM. THEREFORE, SINCE CHILE HAS BEEN INEXTRICABLY LINKED TO THIS IDEA (HERETOFORE NEGATIVELY IN THE EYES OF OTHER CIPEC MEMBERS), THE GOC DID NOT WANT TO GIVE IT THE KISS OF DEATH BY ASSOCIATION. BETTER THAT THE MEMBERS COME TO THEIR OWN CONCLUSIONS. (DOES THIS MAKE SENSE?)

8. COMMENT. TO SAY THE LEAST, THE GOC WAS DISAPPOINTED IN THE CIPEC CONFERENCE. AND THIS, FOLLOWING CLOSE ON THE HEELS OF THE UNCTAD-COMMON FUND FAILURE, HAS PRODUCED A DEEP PESSIMISM HERE ABOUT THE WORTHWHILENESS OF ANY ATTEMPT AT INTERNATIONAL COMMODITY NEGOTIATIONS. THEY SEE A GLIMMER OF HOPE FOR A PCF; THIS IS THE ONLY OPTIMISTIC NOTE. THE GREAT TEMPTATION TO THOSE CONCERNED WITH INTERNATIONAL COMMODITY POLICY HERE IS TO CHUCK IT, AND GO IT ALONE. THEY WILL NOT DO THIS OF COURSE. THEY WILL CONTINUE TO PRESS FOR A PCF WITHIN CIPEC. THE GREAT MAJORITY HERE IS ABSOLUTELY CONVINCED THAT THE LONG-TERM PROSPECTS FOR COPPER ARE GLORIOUS (SEE SANTIAGO A-116). SINCE EVEN BY CONSERVATIVE ESTIMATES CHILE HAS 25 PERCENT OF THE WORLD'S KNOWN RESERVES, IT WILL INDEED BE SITTING PRETTY IN 1985 WHEN THE PRICE IS EXPECTED TO SKYROCKET.
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